



The Accounting Officer  
Gariep Municipality  
Private Bag 03  
Burgersdorp  
9744

30 November 2015

Reference: 21294REG14/15

Dear Sir

**Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Gariep Municipality for the year ended 30 June 2015**

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa and section 121(3) of the Municipal Finance Management Act of South Africa (MFMA).
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) of the MFMA you are required to include the audit report in the municipality's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
  - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
  - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in

the hard copy that is provided to you. The official logo will be made available to you in electronic format.

6. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

Signed



A handwritten signature in black ink, appearing to read 'Sivuyile Ndabambi'.

Sivuyile Ndabambi

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# Report of the auditor-general to the Eastern Cape Provincial Legislature and the council on Gariep Municipality

## Report on the financial statements

### Introduction

1. I have audited the financial statements of the Gariep Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

## **Basis for qualified opinion**

### **Investment property**

6. Sufficient appropriate audit evidence was not available to support the estimated fair value of investment property of R4,60 million (2013-14: R4,60 million) as disclosed in note 8 to the financial statements. I was unable to confirm this amount by alternative means. Consequently, I was unable to determine whether any further adjustments to investment property of R101,31 million (2013-14: R101,73 million) were necessary.

### **Irregular expenditure**

7. The municipality did not have adequate systems to identify and disclose all irregular expenditure incurred during the year under review, as required by section 125(2) (d)(i) of the MFMA. The irregular expenditure disclosed in note 44.3 was understated in respect of amounts incurred during the year that were identified during the audit process. Due to the lack of systems, it was impracticable to determine the full extent of the understatement of irregular expenditure.

## **Qualified opinion**

8. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Gariep Local Municipality as at 30 June 2015 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

## **Emphasis of matters**

9. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Restatement of corresponding figures**

10. As disclosed in note 41 to the financial statements, the corresponding figures for 2013-14 were restated as a result of an error discovered during the year 2014-15 in the financial statements of the municipality for the year ended 30 June 2014.

### **Material losses**

11. As disclosed in note 45.8 to the financial statements, material losses of R9 million were incurred as a result of unaccounted electricity.

## **Additional matters**

12. I draw attention to the matters below. My opinion is not modified in respect of these matters.

## Unaudited supplementary schedules

13. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

## Unaudited disclosure notes

14. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

## Report on other legal and regulatory requirements

15. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

## Predetermined objectives

16. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objective presented in the annual performance report of the municipality for the year ended 30 June 2015:
  - Key performance area 1: Physical infrastructure and energy efficiency on pages x to x
17. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
18. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).
19. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
20. The material findings in respect of the selected objectives are as follows:

## **Physical infrastructure and energy efficiency**

### **Usefulness of reported performance information**

21. Section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 100% of the reported objectives were not consistent with those in the approved integrated development plan. This was due to the lack of knowledge of the relevant legislation and the over-reliance on the work done by consultants.

### **Reliability of reported performance information**

22. The FMPPi requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Adequate and reliable supporting evidence could not be provided for the targets to assess the reliability of the reported performance information. The auditee's records did not permit the application of alternative audit procedures. This was due to the fact that the municipality could not provide sufficient appropriate evidence in support of the reported performance targets.

## **Additional matter**

23. I draw attention to the following matter:

### **Achievement of planned targets**

24. Refer to the annual performance report on pages x to x for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected objectives reported in paragraphs x to x of this report.

## **Compliance with legislation**

25. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

## **Strategic planning and performance management**

26. The performance management system was not in line with the objectives contained in its integrated development plan, did not clarify the roles and responsibilities of each role-player and did not determine the frequency of reporting and the lines of accountability, as required by section 38(a) of the Municipal Systems Act.
27. The performance management system did not provide for steps of improvement where performance targets were not met, as required by section 41(1)(d) of the Municipal Systems Act.

28. The municipality did not establish mechanisms to monitor and review its performance management system, as required by section 40 of the Municipal Systems Act.
29. The annual performance report for the year under review did not include a comparison of the performance with set targets, a comparison with the previous financial year, and measures taken to improve performance, as required by section 46(1)(b) and (c) of the Municipal Systems Act.
30. Supporting documentation which states that the annual performance agreements for the municipal manager and all senior managers are linked to the measurable performance objectives approved with the budget and to the service delivery budget implementation plan, as required by section 53(1)(c)(iii) of the MFMA and section 57(1)(b) of the Municipal Systems Act, was not submitted for auditing.

## Audit committee

31. The audit committee did not respond to the council on the issues raised in the audit reports of the auditor-general, as required by section 166(2)(c) of the MFMA.
32. The audit committee did not submit, at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by municipal planning and performance management regulation 14(4)(a)(iii).

## Internal audit function

33. The internal audit unit did not function as required by section 165(2) of the MFMA, in that it did not advise the accounting officer or report to the audit committee on matters relating to loss control.

## Consequence management

34. Unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.
35. Appropriate action was not taken against officials of the municipality where investigations proved financial misconduct, as required by section 171(4)(b) and 172(3)(b) of the MFMA and regulation 6(8) of the *Municipal regulations on financial misconduct procedures and criminal proceedings*.

## Expenditure management

36. Money owed by the municipality was not always paid within 30 days or an agreed period, as required by section 65(2)(e) of the MFMA.
37. Reasonable steps were not taken to prevent unauthorised, irregular and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

## Asset management

38. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.

## Human resource management

39. An acting chief financial officer was appointed for a period of more than six months, in contravention of section 56(1)(c) of the Municipal Systems Act.
40. The municipal manager and senior managers directly accountable to the municipal manager did not sign performance agreements, as required by section 57(2)(a) of the Municipal Systems Act.

## Procurement and contract management

41. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by supply chain management (SCM) regulation 19(a).
42. Awards were made to providers who were in the service of other state institutions or whose directors were in the service of other state institutions, in contravention of section 112(j) of the MFMA and SCM regulation 44. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, in contravention of SCM regulation 38(1).  
Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, in contravention of SCM regulation 38(1).
43. Persons in the service of the municipality who had a private or business interest in contracts awarded by the municipality failed to disclose such interest, as required by SCM regulation 46(2)(e) and the code of conduct for staff members issued in terms of the Municipal Systems Act.
44. The prospective providers list for procuring goods and services through quotations was not updated at least quarterly to include new suppliers that qualify for listing, and prospective providers were not invited to apply for such listing at least once a year, as per the requirements of SCM regulation 14(1)(a)(ii) and 14(2).
45. Contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding and quotations, in contravention of SCM regulations 21(b) and 28(1)(a) and the *Preferential procurement regulations*.

## Annual financial statements

46. The financial statements submitted for auditing were not prepared, in all material respects, in accordance with the requirements of section 122 of the MFMA.  
Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided

subsequently, which resulted in the financial statements receiving a disclaimer of audit opinion.

### **Internal control**

47. I considered internal controls relevant to my audit of the financial statements, the annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

### **Leadership**

48. The leadership did not fulfil its oversight responsibilities of the implementation and monitoring of internal controls and compliance with legislation. The leadership also did not insist on daily disciplines to ensure sound financial and performance management and compliance with legislation. This resulted in inaccurate, incomplete and inadequate financial and performance reporting.
49. The leadership did not set the tone at the top, as management was not held accountable for non-compliance with legislation. In addition, a slow response by management to recurring issues resulted in repeated contravention of the SCM regulations and irregular expenditure being incurred by the municipality.

### **Financial and performance management**

50. Management did not adequately manage and monitor key daily and monthly processes, including reconciling accounts, maintaining registers and clearing suspense accounts throughout the financial year. This resulted in material misstatements in the financial statements submitted for auditing, inconsistencies in the annual performance report and non-compliance with legislation.
51. The municipality still did not have adequate record management systems for predetermined objectives. This was mainly due to staff members not being sufficiently skilled and fully understanding the performance information requirements relating to keeping portfolio of evidence.

## Governance

52. There was no effective risk management of financial information, compliance with legislation as well as reporting on predetermined objectives, as recurring findings in these areas were identified during the year. This is a critical area that the risk management process should address going forward.
53. Management did not implement the recommendations from the internal audit function and this is evidenced by the number of material findings raised on the annual financial.

*Auditor-General*

East London

30 November 2015



*Auditing to build public confidence*